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Discount Store News®

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Retailers Reserved About 2Q Outlook

***Caldor chairman** Don Clarke: Much of the discounter's gains in the Northeast have come at other retailers' expense. 'We're gaining market share even though the economy's still pretty soft.'*

By Laura Liebeck

CHICAGO — Many of the nation's leading discount chains are looking at the second half of 1992 with some optimism, but they're still skittish about predicting an economic turnaround in a volatile, presidential election year.

While reserved about predicting what sales will do in the months to come, particularly at Christmas, many discounters are cheered by the early pace of back-to-school sales and other key indicators and predict a better than originally projected end to 1992.

In fact, toys are already selling at Kmart and the sale of back-to-school merchandise is doing well, said Bill Underwood, senior vice president, general merchandise.

However, with the overall retail/economic climate still uncertain, particularly due to the presidential election campaign, Underwood said the second half will "be a battle. People are cherrypicking. They're not filling up their carts the way they used to."

Wal-Mart's Ray Hobbs, vice president, general merchandise manager—interviewed at *DSN*'s annual SPARC (Supplier Performance Awards by Retail Category) banquet in Chicago—was reluctant to predict the future, saying only that "we'll keep going the way we do."

For Wal-Mart, that meant a 28% sales increase in July over last year and a comparable store gain of 13%.

However, in various parts of the country, it is difficult to tell if the long hoped for recovery is taking place. Caldor chairman Don Clarke, for example, noted that most of the company's gains in the Northeast have come at the expense of other retailers. "We're gaining market share even though the economy's

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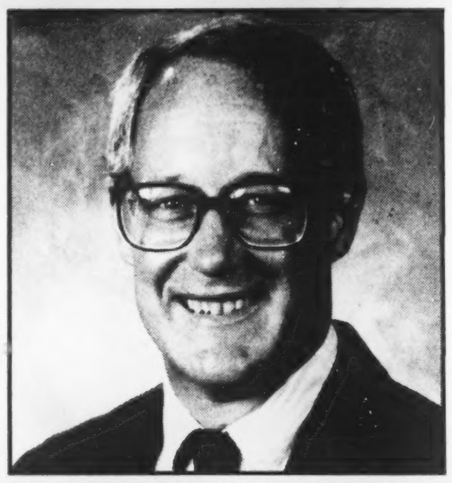

***Venture president** Phil Otto: 'The business has been so erratic. [August] started out slow, then this week [business] went through the roof. I don't see any radical changing of the consumer's mentality.'*

Discount Store Execs In Buying Mood for Fall Men's Apparel Show

By Jill Lettich

LAS VEGAS — The Men's Wear Apparel Guild in California (MAGIC) trade show in Las Vegas this week promises to be one of the busiest in many seasons. Rather than "just looking," this year there appears to be a renewed purpose to buyers' shopping expeditions to the largest men's wear trade show.

Retailers, buoyed by healthy first half men's wear sales, will be busy—especially discounters, who will be hustling for a strong denim brand to replace the Lee name.

VF Corp., Lee's parent, announced last month that it would change its distribution and take Lee brand apparel out of discount stores. This news—Lee is consistently a leading brand in all three major apparel categories and a staple at upscale regional chains like Venture and Bradlees—initially provoked anger in many discounters and created a sense of urgency to the shopping plans for MAGIC.

Though Lee previewed its discount store line, Riders, to its major customers before MAGIC, a number of regional chains said they would proceed cautiously before fully buying into the company's new brand for the discount tier. "We're going to make them work a little bit," said one.

At MAGIC, a number of vendors are likely to benefit

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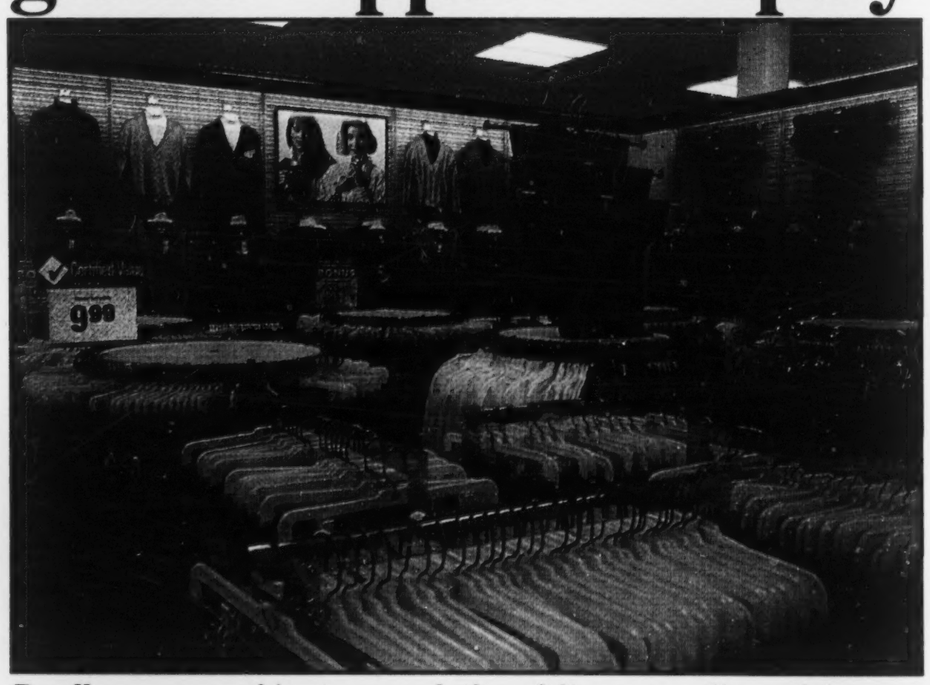
Bradlees Upgrades Apparel Display

By Richard Halverson



***Bradlees,** now working to upgrade the soft lines area of its evolving prototype, picked simple grid walls to showcase apparel.*

HACKENSACK, N.J. — Having worked on hard lines shortcomings, Bradlees has turned to better apparel presentation as the latest step in the evolution of its remodeled store prototype.

Occupying 50% of floor space, the new Bradlees apparel departments feature 10-foot high apparel grid walls that showcase goods in inexpensive, computer-designed displays that require neither associate training nor store design work to set up.

The high grid walls mean that customers' eyes have to focus on the apparel departments, rather than empty air, no matter where they stand in the store.

Bradlees intends to go back and add the new features to stores it started to remodel in 1990. And now that it is on its own, the regional chain of 127 stores can now start thinking of expansion in 1993.

Until its previous parent, Stop & Shop, sold it this spring in a public offering to raise cash for new supermarkets, Bradlees saw its net profits flow away to its parent company. That amounted to a pro-forma $20 million in 1991.

(As a new public company, Bradlees has declared its first quarterly dividend of 15 cents a share for the quarter ending Oct. 31, for a total payout of $1.65 million based on 11 million shares outstanding).

"We now control our own destiny," said Norm Chalphin, senior vice president,

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Meijer to Debut 1st SourceClubs in Nov.

By Arthur Markowitz

GRAND RAPIDS, Mich. — Meijer plans to open its initial trio of SourceClub membership warehouses in November in the Detroit and Lansing, Mich., markets and follow up with at least six clubs starting next year.

The first 130,000-sq.-ft. clubs will be opened in Meridian Township, just east of Lansing, and in the Detroit suburbs of Fraser and Taylor. Meijer owns land for future clubs in the Westland suburb of Detroit, the Grandville suburb of Grand Rapids, the Grand Blanc Township suburb of Flint and the Norton Shores suburb of Muskegon, Mich., and two sites in the Greater Dayton, Ohio, area, one in Sugarcreek Township and the other at an undisclosed site.

SourceClub will be squaring off against three other wholesale clubs in five of these markets: Sam's Club in Flint, Lansing, Grand Rapids and Dayton; Pace Membership

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Mall of America Packs in Buyers, Gawkers

By Jill Lettich

BLOOMINGTON, Minn. — More than 150,000 people rushed to the new Mall of America here on its first day of operation, but retailers are still asking themselves if the crowds are coming for the entertainment or the shopping experience.

The largest mall in the nation and the first to combine upscale department stores with off-price retailers opened in this Minneapolis suburb Aug. 11.

Attracted by a 7-acre Knott's Camp Snoopy amusement park, a miniature golf course, movie theaters, nightclubs and restaurants, plus more than 300 stores, the first day crowd came ready to play and gawk.

Initial reports indicated there were more lookers than spenders. People paraded through and bought novelty and gift items for the most part, according to an informal poll of retailers. Chains that were brand new to the Minneapolis/St. Paul area understandably had the most traffic.

Most of the retailers are counting on the uniqueness of the Mall of America to create traffic. Customers will find upscale stores as well as off-pricers, mass merchandiser Sears, and Service Merchandise, a catalog showroom, all in one place. In addition, a number of stores that generally operate in strip centers have also leased space in the mall. However, few expect to change their base to mall locations.

The mall is neither a standard regional mall nor one of the new hybrid outlet malls. Instead, developers Melvin Simon & Assoc., Indianapolis, managed to attract the diverse retailers by promoting Mall of America as an entertainment complex.

With 40 million people expected in the first year (Disney World expects just over 20 million in its theme park) developers note that there should be enough customers to go around to both the upper and lower tier retail stores.

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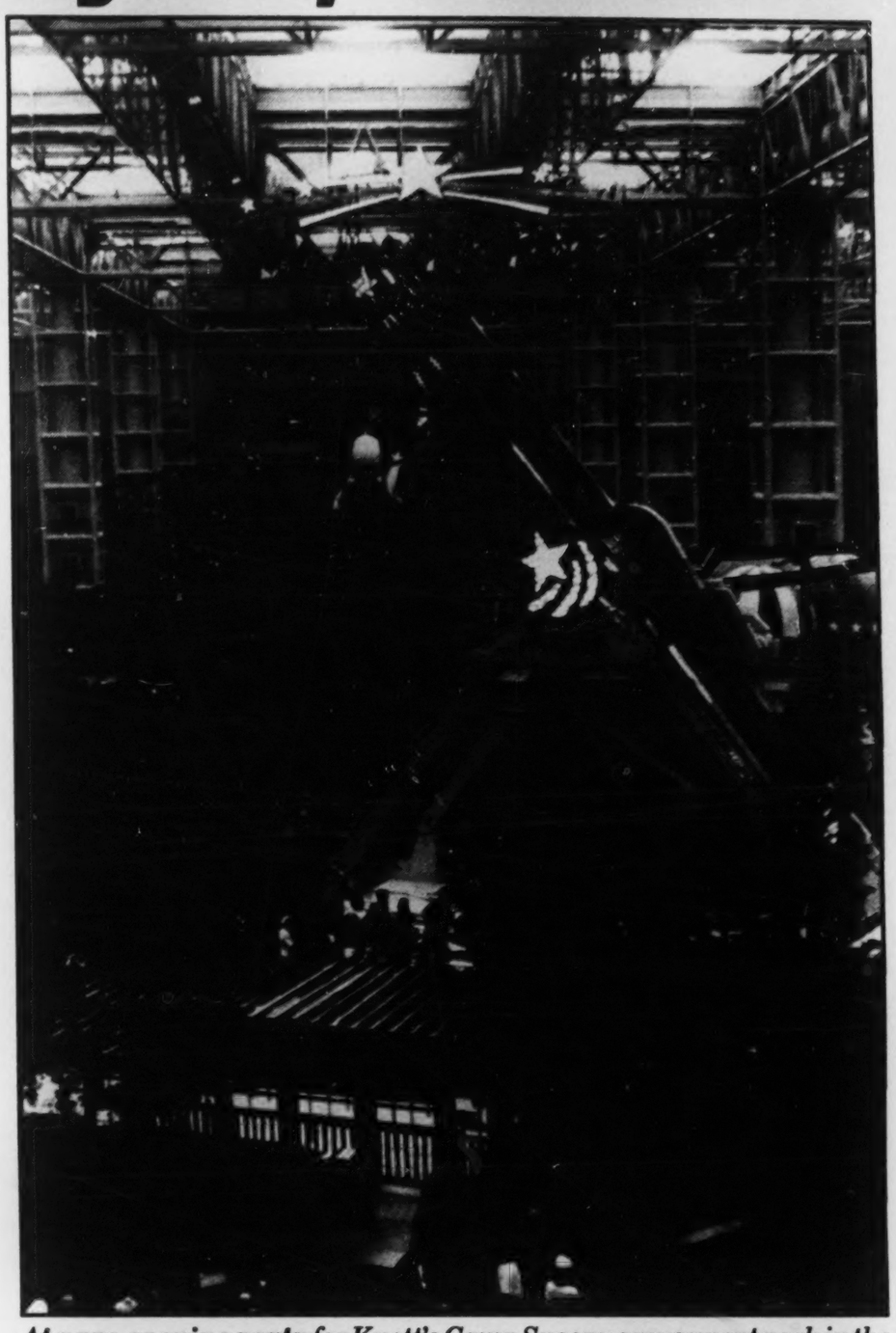

At a pre-opening party for Knott's Camp Snoopy amusement park in the mall, guests in formal dress rode the Screaming Yellow Eagle. (DSN photo)

Strange Bedfellows at Nation's Largest Mall

By Jill Lettich

BLOOMINGTON, Minn. — Clothes shopping takes on a whole new spin when you're talking about the Mall of America.

The new mall has made for strange bedfellows by combining upscale stores with off-pricers under one roof. It is a microcosm of the greater issues of differentiation and value pricing that now plague apparel retailers.

NEWS ANALYSIS

Macy's, Bloomingdale's and Nordstrom are all struggling to maintain their individual identities in an ungenerous climate for department stores. They are trying to put forth a fashion image with a mix of (many identical) designer labels in addition to their own brands.

Mall of America is saturated with competition for apparel customers, including specialty retailers The Gap, Eddie Bauer and The Limited. With primarily private label merchandise and a casual look that goes anywhere, these stores

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First Half Discount Store Sales Run Hot and Cold

But Wal-Mart, Dollar General, Caldor Stand Out

Nationwide DSN Report

With a few exceptions, most discounters entered the second half of the sales year after a so-so first half, as same store sales for most chains barely stayed ahead of inflation during the first six months. Others lost ground as cool weather in the second quarter hurt same store sales gains, compared to first quarter results.

In terms of same store gains, Dollar General led the field with a 20.4% increase in the first half, tapering off to 18.8% for the second quarter.

Wal-Mart continued its strong showing with a 12% same store gain holding for the second period and the first half.

Same store sales at Caldor rose more in its second quarter than for the overall half: 7.6% for second period, compared to 5.5% for six months.

Pep Boys—Manny, Moe & Jack reported a 14% comparable store sales increase for the half and 18% for its second half.

On the minus side, Sears ended the half with a 2.2% same store decline for July after starting the year with a robust gain of 8.9% for February. The controversy over charges that Sears cheated customers on auto repairs cut deeply into consumer confidence and sales during the second quarter. The cool weather also left Sears sitting on stocks of air conditioners and fans. Same store sales declined 1.5% during the second quarter, dragging the first half gain down to a scant 0.5%.

Rose's closed 15 stores during the second quarter, leading to a 9.3% decline in sales. But same store sales for the chain fell 3.9% for the period and 2.6% for the half.

Hills, operating in Chapter 11, reported a small profit for the second quarter, but saw its same store results reverse to a minus 2.1% from a 3.8% gain over for the first six months.

Jamesway pared same store decline to 1% for the second quarter from 2% for the half.

Target reported a 4% same store gain for both the half and the last quarter. Kmart came with a 2.2% gain for the last quarter, improving a bit on 1.8% for the half. Venture's same stores sales improved by 5.2% for the half, after a 4.5% gain in the second quarter.

Discounter Sales, Second Quarter, First Half '92

Chain	2nd. Quarter Sales (In Millions)	% Chg. '91	Same Store Sales	1st Half Sales (In Millions)	% Chg. '91	Same Store Sales
BJ's Wholesale	$ 420.9	22.0%	NA	$ 800.1	25.0%	NA
Caldor	492.0	12.6	7.6%	904.5	10.9	5.5%
Clothestime	83.9	22.0	8.0	152.2	21.0	10.0
Consolidated Stores	176.7	15.0	(1.0)	395.2	18.1	3.0
Dollar General	216.0	25.3	18.8	403.5	26.2	20.4
Filene's Basement	107.6	12.0	(2.0)	218.6	11.0	(2.0)
Hills	358.9	(2.2)	(2.1)	710.8	3.8	3.8
Jamesway	204.2	(1.5)	(1.0)	386.7	1.4	(2.0)
Kmart[1] Pace	6,210.0 1,065.0	4.1 21.7	2.2 10.9	11,842.0 2,031.0	3.8 21.8	1.8 11.7
Pep Boys	309.2	18.0	16.0	584.7	18.0	14.0
Rose's	310.5	(9.3)[2]	(3.9)	611.5	(8.1)	(2.6)
Ross Stores	255.0	10.0	1.0	576.0	10.0	1.0
Sears	7,569.4	(1.1)	(1.5)	14,415.1	0.1	0.5
SportsTown	27.1	32.5	22.9	52.9	35.5	26.4
Target	2,306.0	16.0	4.0	4,460.0	16.0	4.0
TJX Cos.	753.6	16.0	4.0	1,424.6	14.0	2.0
Toys "R" Us	1,249.1	18.0	6.3	2,422.6	16.0	5.5
Venture	387.0	14.2	4.5	750.9	14.9	5.2
Wal-Mart[1]	13,028.5	26.0	12.0	24,677.9	26.0	12.0

NA—Not available or not applicable
[1]Total corporation
( )—Decrease
[2]Reflects closing 15 stores
Source: DSN research, company reports

Phar-Mor Faces Long, Painful Reorganization

YOUNGSTOWN, Ohio — Amid rumors that the 306-store deep discount chain would go out of business, Phar-Mor called back about 50 of its 1,000 laid-off employees. However, some vendors continue to refuse to ship merchandise to the chain, which filed for Chapter 11 bankruptcy protection in mid-August.

Meanwhile, former vice chairman Michael Monus, in a resignation letter to the board of trustees of Youngstown State University, said that he expected to be vindicated of public charges that he and former Phar-Mor chief financial officer Patrick Finn embezzled funds from the company and falsified financial records to obscure losses.

Finn's lawyer is quoted as saying that his client is cooperating with the FBI, the U.S. Attorney's office and Phar-Mor officials in an investigation of Monus' activities. The Warren, Ohio, *Tribune Chronicle* said that Finn was explaining to investigators how he and Monus altered financial records.

Phar-Mor and its former accountants, Coopers & Lybrand, are swapping lawsuits, Phar-Mor alleging that the accounting firm should have discovered the fraud and Coopers & Lybrand countering that it was lied to by top execs.

"Let's ascribe the blame where it belongs," said Coopers & Lybrand assistant general counsel David McLean. "It's his [chairman David Shapira's] desk where the buck stops." Phar-Mor has hired Irwin Cohen of Deloitte & Touche, a well-known retail accounting specialist, to head its new audit team, and has also hired independent counsel to supervise its internal investigation.

Monus and Finn allegedly embezzled $10 million, most of which was used to shore up Monus' World Basketball League, a professional league for players under 6-ft., 7-in. tall. The two also allegedly falsified financial documents to show the company was making more money than it actually was, which in turn forced Phar-Mor to take a $350 million charge and eventually file for protection from creditors.

Creditors, many of whom had little love for the hard-bargaining deep discounter, stopped shipments, and most have not resumed supplying the chain, although chairman David Shapira noted that the 50 recalled employees were union distribution personnel who work for Phar-Mor's Tamco Distributors subsidiary, and were needed to keep up with increased shipments.

"Because of renewed supplier confidence and increased vendor shipments of merchandise, we were able to bring back these workers," Shapira said. "Over the coming weeks, we anticipate rehiring more Tamco workers."

The 50 or so recalled distribution workers represent only about 7% of the roughly 750 distribution employees laid off. Spokeswoman Carol Robinson noted that "our creditor banks unanimously agreed to allow us to use $50 million in cash collateral. In combination with ongoing revenues from our stores, we will have enough capital to operate indefinitely." Phar-Mor is seeking debtor-in-possession financing to buy inventory for the holiday selling season.

Phar-Mor is also exiting three businesses that were recently added: home office furniture, office electronics and team sportswear. Presumably, those businesses were losing money, and the company is planning to return its attention to its core: H&BC, drugs, food and snacks.

Reorganization will be long and painful, assuming the firm survives. Preliminary audits of financial statements indicate the company lost an unquantified amount of money every year of its existence.

That has led some analysts and suppliers to conclude that the company is not now, and may never have been, viable. Due to the alleged falsification of records, it is unclear how many of Phar-Mor's stores were ever profitable on an operational basis. The company has gone to the capital market three times in the past year, selling a $200 million stake to Lazard Freres and increasing its revolving line of credit. The company is now worth far less than that.

In an attempt to avoid going out of business, Phar-Mor rehired 50 of its laid-off Teamster union workers, changed accounting firms and tried to regain the confidence of its creditors and vendors.

If the stores were turning an operating profit, and losses were the result of fraud or embezzlement, the chain, which has an enormous franchise with customers, should be able to find new capital. If the chain never made money, it will probably die. The internal audit should answer that question.

Monus and Finn allegedly used $10 million in Phar-Mor funds to cover debts of the now-defunct World Basketball League, of which Monus was president. Players were paid sporadically, and at the end, checks from Monus to league accounts bounced. The alleged scheme came to light due to an erroneous tip that teams were paid with Phar-Mor checks. The checks, it turned out, came from Monus.

Several major vendors are owed in excess of $1 million. FoxMeyer, the drug distributor, took the biggest hit, estimated at $74 million by FoxMeyer and $43 million by Phar-Mor. FoxMeyer has, in the past two years, lost Kmart and Wal-Mart as customers.

Other creditors include Fuji Film, Gibson Greetings, Nestle, Levy Home Entertainment, Bonneau, Gillette, Union Camp, Hershey, Keebler, Acme Frame, and photofinisher Qualex. All are owed between $1 million and $6 million, according to Phar-Mor's bankruptcy petition.

Retailers Reserved About 2Q Outlook

(Continued from page 1)

still pretty soft," said Clarke.

Venture, the large Midwestern regional chain, is not betting on a robust recovery anytime soon. "The business has been so erratic," said president Phil Otto. Sales gains fluctuate radically month-to-month, and even week-to-week. "This month [August] started out slow, then this week it [the business] went through the roof." Otto added, "I don't see any radical changing of the consumer's mentality that's going to change the retailing landscape."

Optimism is ringing more loudly at Clover, where one merchandiser told *DSN* that the Philadelphia-based discounter is projecting a slight increase for the second half, "but I think we'll do even better than the projections, especially in toys and trim-a-tree."

This merchandiser was heartened by the late first quarter pick up in sales of seasonal merchandise, particularly of patio furniture and lawn and garden products. Soft lines struggled through the first half but hard lines fared better.

At Consolidated Stores, the second half is projected to be stronger than the first, according to a buyer. "It'll be better than last year but it won't be great like five years ago, not with the economy."

July sales were flat, this buyer said but so far in August, "it's like someone turned the faucet on." He said back-to-school sales look to be "big" and the company is gearing up for Halloween and Christmas, noting that 1992 should be a good year for Halloween sales.

At Wholesale Depot, general merchandise manager Mark Ransdell is looking at the second half with "cautious optimism. It looks pretty good going into third quarter: good in hardware and in hand tools."

A divisional merchandise manager for a Midwest regional discount store chain said his company is projecting sales for the second half to tick up 3% from 1991. Seasonal categories will lead the way, the divisional said, specifically identifying trim-a-tree, toys, stationery—including greeting cards—and lawn and garden.

At Ames, whose future is still undecided, a group of executives echoed the sentiments of many Hardware Show-goers who are reserved in their optimism about the second half.

However, Dave Covitz, assistant vp, divisional merchandise manager, said he sees some opportunities for Ames in hardware gift items.

"We take the assumption we have to push like heck," said Covitz.

Among vendors, Rubbermaid president Wolf Schmitt is approaching the second half in a similar manner as Wal-Mart. Said Schmitt: "We had double-digit unit increase in first half and we're still looking to do that in the second half. Our philosophy is we won't be victims of the economic situation."

Rayovac also is projecting a good second half, according to John Daggett, director of corporate communications. Based on "pre-books" and the retailer reaction to several new packaging programs—pre-loaded battery packs, sidekick display of flashlights and gift packages of flashlights and batteries—"second half looks good," he said.

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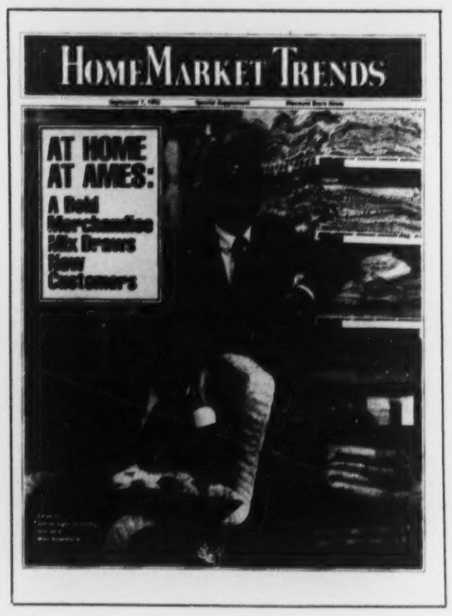

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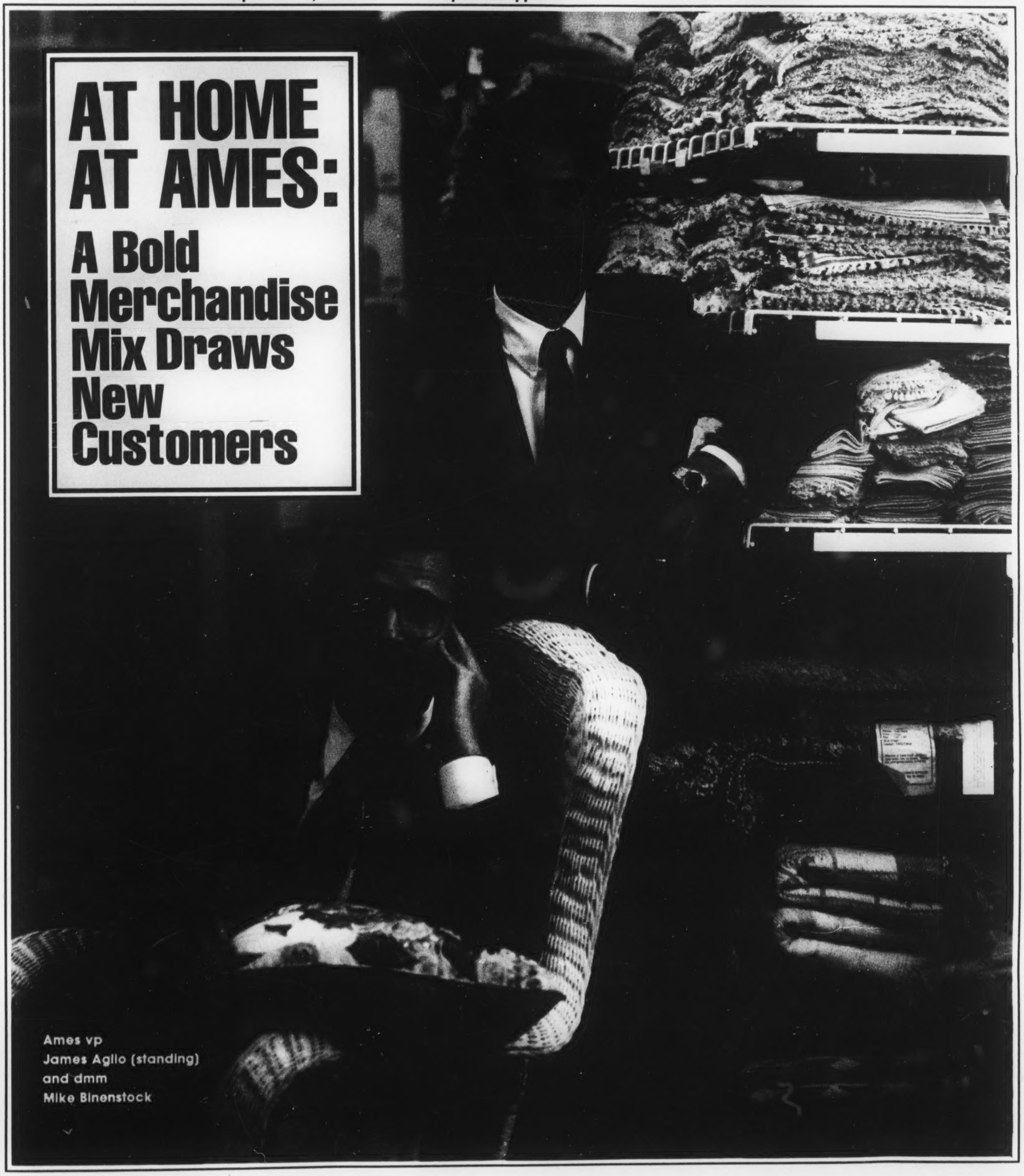
A Bold Merchandise Mix Draws New Customers



Ames vp
James Agllo (standing)
and dmm
Mike Binenstock